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THE
BETHLEHEM
CORPORATION
ANNUAL REPORT 1972

Directors

John F. Bacon
O. Karl Dieckmann
Morris L. Forer
Roger C. Hubbard
Robert Margolis
James I. McClintock
Wesley J. Peoples

Officers

James I. McClintock
Chairman of the Board
Wesley J. Peoples
Co-Chairman, President and Chief Executive Officer
B. Ord Houston
Executive Vice President and Treasurer
Arthur W. Smith
Vice President-Sales and Engineering
H. J. Rosebery
Vice President-Manufacturing
O. Karl Dieckmann
Secretary

General Counsel

McClintock, Fulton, Donovan & Waterman
Detroit, Mich.

Pennsylvania Counsel

Wolf, Block, Schorr & Solis-Cohen
Philadelphia, Pa.

Certified Public Accountants

Alexander Grant & Company
New York, N.Y.

Transfer Agent and Registrar

Registrar and Transfer Company
Jersey City, N.J.

Stock Listed

American Stock Exchange
Detroit Stock Exchange

Annual Meeting

The Annual Meeting of shareholders
will be held at the Bethlehem Hotel,
Bethlehem, Pa., on April 30, 1973
at 11 A.M.

To Our Shareholders:

The year 1972 was a difficult one for your company as we sustained our first loss in thirty-three years. Nevertheless, a backlog of approximately \$7,000,000, together with an improvement in bookings, should indicate better results later in the year.

Several factors including some operating problems contributed to the loss, but the principal cause was the close-out of foundry operations at both Bethlehem and Easton. To continue this function would have required an expenditure of over \$4 million of new foundry facilities to enable us to compete in the cast metals market and to comply with stringent health, safety and pollution standards. This step was not economically feasible in the judgment of your Board of Directors.

In 1972 the company sold substantially all of the remaining business and assets of the Modern Collet & Machine Company Division. The elimination of this unprofitable division should reflect favorably in our operations for the current year.

Generally, the products we make for the power generating industry—mainly gas turbine components—have remained at a high level of demand and appear likely to continue in the foreseeable future. Evidence of this

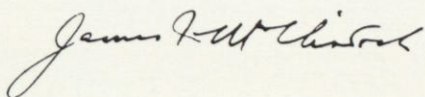
uptrend is a \$1.6 million order for a sophisticated large vacuum type chamber to test turbine rotors.

Because of various problems in design, service and delivery, we recently discontinued our representation of Vickers Medical of England and decided to again manufacture hyperbaric chambers *in our own plants*. With the renewed interest in the field of hyperbaric medicine, we are glad to report we have currently on order several single patient chambers, and one for a large hyperbaric facility.

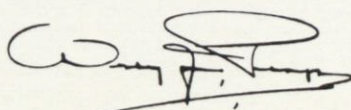
Our Chemical Process Equipment Division has enjoyed further industry acceptance, and we foresee greater use of our patented "porcupine" design in a number of industries.

Although net losses for the year reduced book value of our stock from \$5.92 to \$5.26, our financial position remains strong with working capital at \$2,685,000; a current ratio of 1.8.

We wish to express our appreciation for the dedication of our employees, the loyalty and cooperation of our business associates and customers, and the confidence of our stockholders, all of which are important to the success of the company.



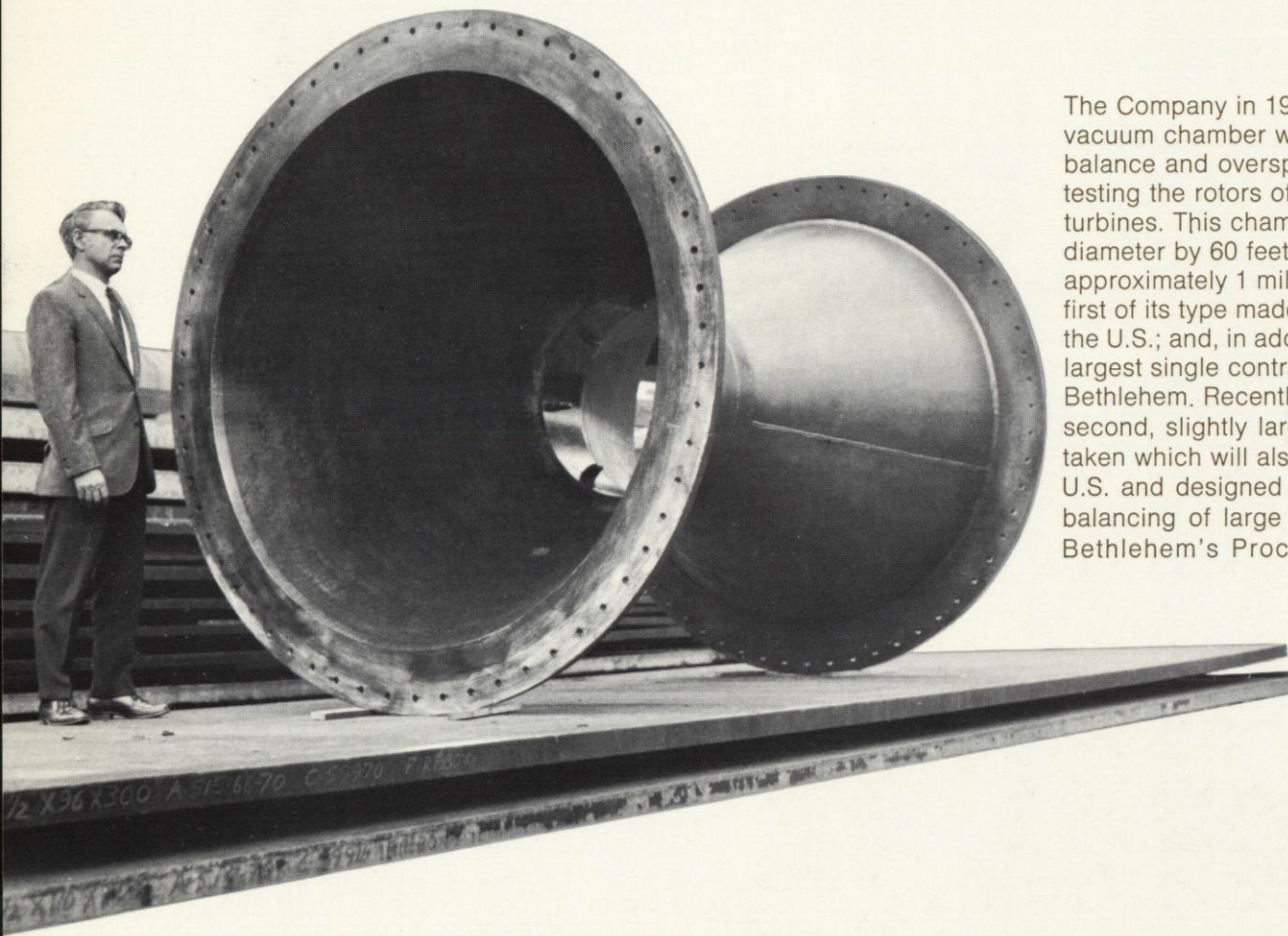
James I. McClintock
Chairman



Wesley J. Peoples
Co-Chairman
President

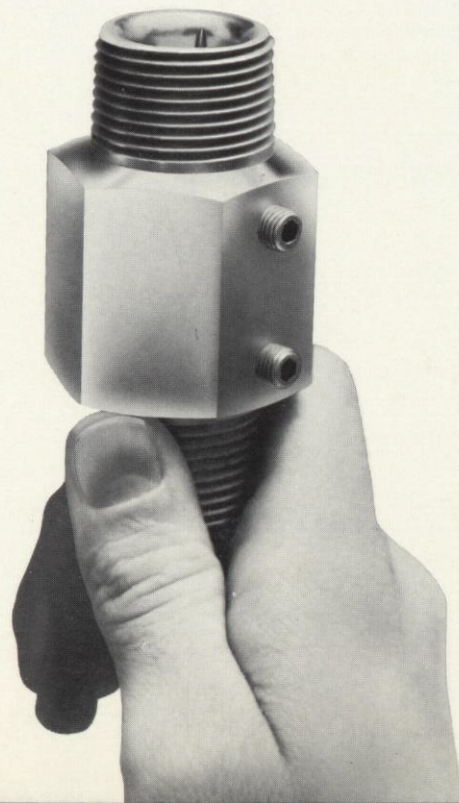
April 9, 1973

Review of Operations



The Company in 1972 built a large vacuum chamber which was part of a balance and overspeed facility used for testing the rotors of power generating turbines. This chamber, 33 feet in diameter by 60 feet long and weighing approximately 1 million pounds, was the first of its type made and installed in the U.S.; and, in addition, was one of the largest single contracts received by Bethlehem. Recently an order for a second, slightly larger unit, has been taken which will also be installed in the U.S. and designed for the dynamic balancing of large turbine rotors. Bethlehem's Process Equipment

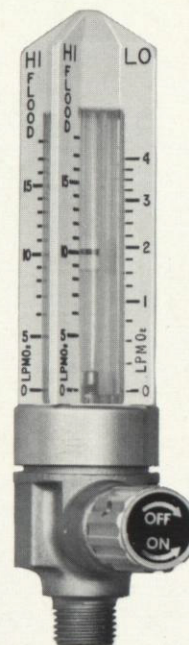
Flow tubes represent a product line with significant sales potential. Standard sizes are from 1" to 48" in throat diameter, but up to 144" may be fabricated. There is a vast market for these measuring devices among power plants and natural gas companies; and for water, sewage, various gases, acids and organic solvents.



Division has been successful in marketing various process equipment such as drum dryers and mixing devices. The Company is developing a continuous ergulator which is an agitated and staged chemical reactor. This mixing device is best adapted to large-scale production plants working around the clock. It makes available for the chemical process industry a new and timely piece of process equipment, and should help maximize productivity. Orders have been taken by the Company for high pressure chambers to be used by the U.S. Navy for underwater research. These chambers are, in

effect, hyperbaric facilities fitted with pressurization and environmental conditioning systems.

Medical Products is also achieving success in marketing some new products. Its new "Ambulift", a handling device for immobile patients, is being sold to hospitals and extended care institutions. The Company's variable type flowmeter for measuring oxygen flow rates is gaining significant recognition in hospital units administering oxygen to patients. Bethlehem is also achieving recognition with its new complete line of magnetic amplifying stethoscopes.



Flow Meter

Bethlehem's hyperbaric chamber was demonstrated in February, 1973 at a seminar at the Allentown Osteopathic Hospital. Attending this seminar were 125 medical and paramedical professionals, including several of the nation's foremost authorities on hyperbaric medicine. This unit has been donated to the hospital by a private individual, and will be used in a newly created hyperbaric facility.



The Bethlehem Corporation
Balance Sheet
December 31, 1972 and 1971

	<u>1972</u>	<u>1971</u>
Assets		
Current Assets		
Cash	\$ 1,075,723	\$ 716,933
Accounts receivable, less allowance for doubtful accounts of \$60,000 in 1972 and \$35,500 in 1971	2,023,243	2,636,088
Inventories (Note A-1)		
Raw materials, parts and supplies	769,364	1,013,657
Work in process and finished products	1,477,523	2,246,586
	<u>2,246,887</u>	<u>3,260,243</u>
Refundable taxes on income (Note A-4)	633,183	206,552
Prepaid expenses and other current assets	193,339	95,636
Total current assets	<u>6,172,375</u>	<u>6,915,452</u>
Property, Plant and Equipment—at cost, Partially Pledged (Note C)		
Land	557,800	570,895
Buildings and leasehold improvements	998,101	1,034,243
Machinery and equipment	4,647,849	4,650,050
Leased equipment		470,000
	<u>6,203,750</u>	<u>6,725,188</u>
Less accumulated depreciation and amortization (Notes A-2 and C)	<u>2,510,257</u>	<u>2,600,242</u>
	3,693,493	4,124,946
Assets held for sale (net) (Note B)	<u>222,216</u>	
	3,915,709	4,124,946
Deferred Expenses and Other Assets	104,841	78,897
	<u>\$10,192,925</u>	<u>\$11,119,295</u>
	<u>1972</u>	<u>1971</u>
Liabilities		
Current Liabilities		
Notes payable to banks — unsecured	\$ 1,500,000	\$ 1,100,000
Notes payable—other—secured	45,000	
Current maturities of long-term debt	438,298	427,405
Accounts payable	919,119	1,391,585
Salaries and wages, commissions, taxes and sundry accruals	584,064	495,405
Total current liabilities	<u>3,486,481</u>	<u>3,414,395</u>
Long-Term Debt—Net (Note C)	1,876,683	2,320,364
Deferred Income Taxes (Note A-2)	163,876	130,328
Commitments and Contingencies (Notes B and D)		
Stockholders' Equity		
Common stock—authorized, 2,000,000 shares without par value, stated value of \$.50 per share; issued, 892,016 shares	446,008	446,008
Additional paid-in capital	1,913,232	1,913,232
Retained earnings	2,317,520	2,905,843
	<u>4,676,760</u>	<u>5,265,083</u>
Less 4,235 shares of common stock reacquired and held in treasury—at cost	10,875	10,875
	<u>4,665,885</u>	<u>5,254,208</u>
	<u>\$10,192,925</u>	<u>\$11,119,295</u>

The accompanying notes are an integral part of this statement.

The Bethlehem Corporation
Statement of Operations and Retained Earnings
Year ended December 31

	<u>1972</u>	<u>1971</u>
		(a)
Net sales	\$11,458,733	\$10,698,840
Cost of goods sold	10,359,653	8,727,948
Gross profit	1,099,080	1,970,892
Selling and administrative expenses		
Selling	503,112	612,955
Administrative	769,758	834,440
	1,272,870	1,447,395
Operating profit (loss)	(173,790)	523,497
Other income	27,912	10,396
	(145,878)	533,893
Other deductions—interest and sundry	261,903	291,677
Earnings (loss) from continuing operations before income taxes and extraordinary items	(407,781)	242,216
Income taxes (credits) before reductions arising from losses from discontinued operations and extraordinary items		
State income taxes		22,200
Federal income taxes	(219,900)	93,500
	(219,900)	115,700
Earnings (loss) from continuing operations before extraordinary items	(187,881)	126,516
Earnings (loss) from discontinued operations, net of related income taxes of \$295,800 and \$32,800 in 1972 and 1971, respectively (Note B)	(310,661)	21,355
Earnings (loss) before extraordinary items	(498,542)	147,871
Extraordinary items (Note B)		
Gain (loss) on sale of assets of discontinued operations, net of related income taxes (credits) of \$(10,800) and \$21,500	(11,781)	15,609
Provision for losses on discontinued operations, net of related income taxes of \$72,000	(78,000)	
	(89,781)	15,609
Net Earnings (Loss)	(588,323)	163,480
Retained earnings—beginning of year	2,905,843	2,742,363
Retained earnings—end of year	<u>\$ 2,317,520</u>	<u>\$ 2,905,843</u>
Earnings (loss) per common share (Note E)		
Continuing operations	\$ (.21)	\$.14
Discontinued operations	(.35)	.02
Extraordinary items	(.10)	.02
Earnings (loss) per share of common stock	<u>\$ (.66)</u>	<u>\$.18</u>
(a) Restated for comparative purposes (Note B).		

The accompanying notes are an integral part of this statement.

The Bethlehem Corporation
Statement of Changes in Financial Position
Year ended December 31

	<u>1972</u>	<u>1971</u> (a)
Sources of working capital		
From operations		
Earnings (loss) from continuing operations	\$ (187,881)	\$ 126,516
Charges against earnings from continuing operations which did not require an expenditure of working capital		
Depreciation and amortization (Note A-2)	334,177	335,993
Deferred income taxes (Note A-2)	33,548	32,296
Working capital from continuing operations	<u>179,844</u>	<u>494,805</u>
Earnings (loss) from discontinued operations (Note B)	(310,661)	21,355
Charges against discontinued operations which did not require an expenditure of working capital		
Depreciation and amortization	35,536	92,224
Working capital from operations before extraordinary items	<u>(95,281)</u>	<u>608,384</u>
Extraordinary items, net of related income taxes (credits) of \$(82,800) and \$21,500, respectively (Note B)	(89,781)	15,609
Working capital from operations	<u>(185,062)</u>	<u>623,993</u>
Disposition of fixed assets	106,278	104,103
	<u>(78,784)</u>	<u>728,096</u>
Applications of working capital		
Acquisition of fixed assets, net	266,754	311,092
Reduction of long-term debt	443,681	360,740
Sundry applications (sources), net	25,944	5,530
	<u>736,379</u>	<u>677,362</u>
Net Increase (Decrease) in Working Capital	<u>\$ (815,163)</u>	<u>\$ 50,734</u>
Changes in components of working capital		
Increase (decrease) in current assets		
Cash	\$ 358,790	\$ (141,828)
Notes and accounts receivable	(612,845)	(156,505)
Inventories	(1,013,356)	(217,576)
Prepaid expenses	97,703	3,163
Refundable taxes on income	426,631	206,552
	<u>(743,077)</u>	<u>(306,194)</u>
(Increase) decrease in current liabilities		
Notes payable to banks—unsecured	(400,000)	75,000
Notes payable—other	(45,000)	163,500
Current maturities—long-term debt	(10,893)	(47,007)
Accounts payable	472,466	(6,121)
Salaries, wages, commissions, taxes and sundry accruals	(88,659)	62,179
Federal and state taxes on income		109,377
	<u>(72,086)</u>	<u>356,928</u>
Net Increase (Decrease) in Working Capital	<u>\$ (815,163)</u>	<u>\$ 50,734</u>

(a) Restated for comparative purposes (Note B).

The accompanying notes are an integral part of this statement.

Note A—Summary of Accounting Policies

A summary of the Company's significant accounting policies consistently applied in the preparation of the accompanying financial statements follows:

1. Inventories

Inventories are stated at the lower of cost or market. Cost is determined principally by the first-in, first-out method.

2. Depreciation and Amortization

Depreciation is provided for in amounts sufficient to relate the cost of depreciable assets to operations over their estimated service lives on a straight-line basis. The straight-line method of depreciation is followed for substantially all assets for financial reporting purposes, but accelerated methods are used for tax purposes. Future income taxes resulting from depreciation differences have been provided.

3. Pension Plans

The Company has noncontributory funded and unfunded retirement plans in effect covering substantially all of its employees. The total pension expense for the years ended December 31, 1972 and 1971 was approximately \$137,400 and \$106,000, respectively, which includes amortization of prior service costs over periods of 25 to 30 years.

4. Investment Credits

The Company accounts for investment tax credits by the "flow-through" method. Under this method, credits are recognized as a reduction of income tax expense in the year the assets giving rise to the credit are placed in service.

Note B—Discontinued Operations

During the year, the Company decided to close its foundry operations in early 1973. As a result of this, certain segments of the Company's business have been discontinued. (The Company will still continue to take orders that include foundry work and fulfill these requirements with subcontracts.) The sales, costs and expenses of those portions of foundry work that have been discontinued, have been segregated in the accompanying statement of operations from continuing operations, and the prior year's operations have also been restated for comparative purposes. In 1972 and 1971, \$1,392,450 and \$2,176,216, respectively, of sales have been excluded.

In addition, provision has been made as an extraordinary charge for estimated losses to be incurred in 1973 in connection with the closing of the foundry operation amounting to \$78,000 net of income taxes.

In 1971, the Company sold most of the business and assets of its Modern Collet and Machine Division and realized a gain. In 1972, substantially all of the remaining business and assets of this division were sold at a loss. Such gains and losses have been reflected as extraordinary items in the accompanying statement of operations. In addition, the operations of this division have been segregated from continuing operations. In 1972 and 1971, \$37,152 and \$1,141,920, respectively, of sales have been excluded.

Note C—Long-Term Debt

Long-term debt at December 31, 1972 and 1971 consists of:

	1972	1971
Notes payable to bank in quarterly installments of \$62,500 plus interest at 1% over the bank's prime rate; final installment of \$1,312,500 due on May 1, 1974—unsecured	\$1,625,000	\$1,875,000
10% rental obligations under lease agreements, payable in monthly installments of \$6,211, including interest; final installment due October 24, 1979 (renegotiated in April 1972, see next item)		406,514
Loan payable to bank in monthly installments of \$4,300 plus interest at 2½% over the bank's prime rate; secured by equipment; final installment due January 10, 1980	365,600	
9½%-10½% equipment note obligations, payable in monthly installments of \$12,180, including interest; final installment due September 2, 1976	291,047	399,588
5½% equipment note obligation payable in annual installments of \$33,333 plus interest; final installment due February 1, 1973	33,334	66,667
	2,314,981	2,747,769
Less current maturities	438,298	427,405
	<u>\$1,876,683</u>	<u>\$2,320,364</u>

The loan agreements contain certain restrictions and covenants, including the prohibition of the Company from paying dividends, other than in the form of stock, without the permission of the lender, the maintenance of certain levels of working capital and net worth, and certain other limitations covering additions to fixed assets and future borrowings.

Note D—Qualified Stock Option Plan

In 1971, the Company established a Qualified Stock Option Plan under which a maximum of 25,000 shares of common stock were reserved for the issuance of stock options to officers and key employees. As at December 31, 1972, no stock options had been granted under this plan.

Note E—Earnings (Loss) Per Share

Earnings (loss) per share were computed on the average number of shares outstanding during 1972 and 1971.

Auditors' Report

Board of Directors The Bethlehem Corporation

We have examined the balance sheet of The Bethlehem Corporation (a Pennsylvania corporation) as of December 31, 1972, and the related statements of operations and retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. We have previously examined and reported on the financial statements for the preceeding year.

In our opinion, the financial statements referred to above present fairly the financial position of The Bethlehem Corporation at December 31, 1972, and the results of its operations and changes in its financial position for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Alexander Grant & Company

New York, New York
February 23, 1973



THE BETHLEHEM CORPORATION Established 1856

225 W. Second Street, Bethlehem, Pennsylvania 18016 Phone: 215-867-4605

PLANT LOCATIONS:

Bethlehem, Pennsylvania; Easton, Pennsylvania